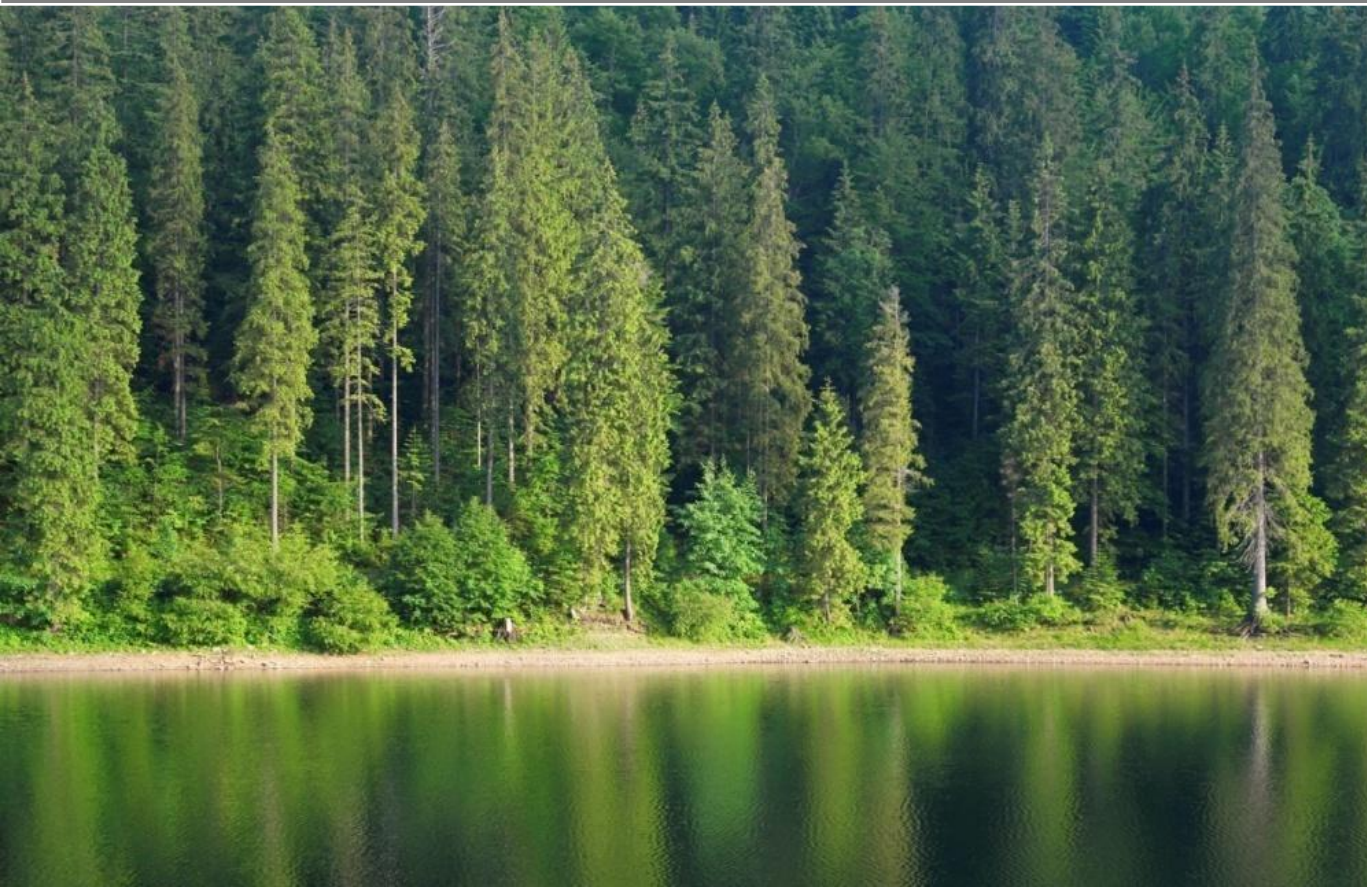




Climate Action Reserve Workshop – Seattle, WA – 3/31/10



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Inside the Black Box – Forestry and the U.S. Carbon Market



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Three Things Run the Carbon Market

FEAR

Utilities (and refineries/factories) face tremendous compliance obligation. 1,500 power plants would be regulated by KGL, which includes a \$10 price floor for carbon. Buying because carbon will never be cheaper than it is right now.

Sell High

GREED

Buy Low

Companies that want to “go green” by purchasing carbon offsets such as DELL, Volkswagen, Hyundai, Virgin America. Considered business as usual in Europe. Thus far in the U.S. usually tied to marketing campaigns. Small fraction of demand.

GREEN

What Affects Pricing?

Price is a function of...

Potential for future regulatory value:

- Location – where projects are located relative to potential regional cap-and-trade programs
- Technology Type – likelihood a technology type will be included in cap-and-trade program
- Standard – likelihood a standard will be included in cap-and-trade program

Delivery Risk:

- Project Stage – where in the development phase the project is in. Feasibility, pre-listing, listed, verified, registered
- Counterparty – reputation of counterparty to deliver promised offsets

Regional Premiums

Some regions command premiums in the market:

- California –
\$1 over national CRTs
- WCI States –
25-50 cent premium over
national CRTs
- RGGI states –
0-25 cent premium over
national CRTs
- Other –
negligible premium if any



Deal Structures

Over-the-Counter (OTC) – bi-lateral contract between two parties; not traded over an exchange

Spot – Purchase already registered offset credits

P.O.D. – Contract today for Payment On Delivery in the future

Strips – Any contract length longer than 1 year (generally 5-10 years)

Unit Contingent (UC) – Buyer will purchase whatever volume is delivered in a given year, sometimes subject to parameters such as anything between 100-150k tons

Firm – Guaranteeing delivery of a specific quantity at a price prior to registration; often comes with a penalty for failure to deliver

Deal Structures

Risk Share – Floor price with sharing of future upside (such as \$5 minimum, any profit over \$5 when sold is split 50/50)

Cash up Front – All or a portion of cash paid up front. Rare since financial crisis and results in significant discounting

Embedded Option – P.O.D. for a 5 year strip at a premium to market. In exchange for the premium, the buyer has the option to extend contract for an additional 5 years at a pre-determined price

Emissions Reduction Purchase Agreement (ERPA) – Contract between buyer and seller

Historic CAR Prices and Recent Events

